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Approved For Release 2005/07/12 : CIA-RDP86-00964R000200070028-9

10 August 1981

MEMORANDUM FOR: Director of Personnel
VIA: Inspector General *ad*
FROM:
Chief, Audit Staff
SUBJECT: Report of Audit, Government Employees
Health Association, Inc., For the Period
1 January 1980 - 31 December 1980

1. Subject report is attached. Please advise me of the action taken on the recommendations contained in the report.

2. We appreciate the cooperation and assistance provided by your staff during the audit.



25X1

Attachment:
As stated

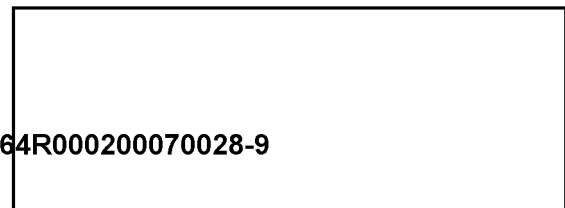
Distribution:
✓ Orig. - D/OP
1 - C/Board of Directors
1 - SA/DDCI
1 - D/Fin
1 - O/Compt/BMG

25X1

WARNING NOTICE
SENSITIVE INTELLIGENCE
AND METHODS INVOLVED

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REPORT OF AUDIT
Government Employees Health Association, Inc.

For the Period
1 January 1980 - 31 December 1980

SUMMARY

1. The Government Employees Health Association, Inc. (GEHA) continues to be administered in an efficient manner. Administrative controls, procedures and records were generally effective and in accordance with applicable requirements. Three of the prior year audit recommendations concerning investment performance have not been completely resolved. These are briefly commented on again in this report, along with a recommendation to strengthen control over bond interest. Other administrative matters were discussed with responsible officers and resolved during the audit.

SCOPE AND OPINION

2. We have examined the GEHA statement of financial position as of 31 December 1980 and the related statements of changes in reserve fund balances and changes in financial position. The examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures, including a review of claim settlement procedures by GEHA, as we considered necessary under the circumstances.

3. In our opinion, the attached financial statements, Exhibits A,B, and C, present fairly the financial position of GEHA at 31 December 1980 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

BACKGROUND

4. GEHA is a tax-exempt organization incorporated in the District of Columbia to administer employee insurance programs in accordance with Agency operational and security requirements. An elected Board of Directors prescribes GEHA operating policies. The daily business is conducted by the Insurance Branch of the Benefits and Services Division in the Office of Personnel. GEHA reimburses the Agency for the services of 31 of the 44 employees in the Insurance Branch.

5. GEHA maintains over 24,000 insurance accounts for active and retired employees. The following plans are in effect:

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<u>PLANS</u>	<u>ACCOUNTS</u>
<u>Life Insurance:</u>	
United Benefit Life Insurance Company	
Active	3,933
Retired	2,518
Worldwide Assurance for Employees of Public Agencies	1,407
<u>Health Insurance:</u>	
Association Benefit	
Active	8,974
Retired	6,561
Contract Hospitalization	185
Specified Diseases	393
<u>Disability Insurance:</u>	
Income Replacement	208
<u>Accidental Death and Dismemberment Insurance:</u>	
Flight and Accident	372
<u>Travel Insurance:</u>	
Air Flight	238
Military Air Flight	2
	<u>24,791</u>

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DETAILED COMMENTSInvestment Performance

6. The prior report of audit contained several recommendations concerning management of GEHA's investment portfolio by BEA Associates, an investment management firm. GEHA management has dealt with several of the issues raised and is working on the three recommendations not yet resolved. A report submitted by a consultant, hired to review GEHA's investment portfolio management, is scheduled for discussion at the GEHA Board of Directors meeting in August 1981. We repeat those recommendations not yet cleared.

Recommendation #1: That the GEHA Board of Directors reevaluate and document GEHA's investment objectives.

Recommendation #2: That the GEHA Board of Directors consider whether dealing through other investment broker(s), adopting an alternate means of handling investments, might be more advantageous than current arrangements, and that it document both the decisions and the basis on which they are made.

Recommendation #3: That the GEHA Board of Directors establish a written policy concerning the holding of fixed income securities which have declined in current market value but are yielding a high rate of return, and that the policy determined be issued as mandatory guidance to any entity executing investment decisions on behalf of GEHA.

Interest Income Records

7. GEHA accounting records and procedures do not provide assurance that bond interest is received when due. Controls should be established by posting date and voucher number for receipt of bond interest on the appropriate page of the bond investment subsidiary ledger, similar to dividend postings in the stock subsidiary ledger.

Recommendation #4: Establish records to assure that bond interest is received when due.

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Exhibit A

Government Employees Health Association, Inc.
Statement of Financial Position
31 December 1980 and 1979

<u>ASSETS</u>	<u>1980</u>	<u>1979</u>
Cash	\$454,446	\$392,465
Investments (Notes 1 and 2)	4,426,411	3,863,674
Claims Receivable	80,137	141,709
Contingent Assets:		
Funds Withheld by Underwriter for Specified Policyholders	154,666	154,666
Less: Reserves	(154,666)	(154,666)
Equipment (Net of Depreciation)	<u>2,312</u>	<u>-</u>
Total Assets	<u>\$4,963,306</u>	<u>\$4,397,848</u>

<u>LIABILITIES AND RESERVES</u>		
Accounts Payable	\$6,796	\$63,361
Prepaid Premiums	180,357	94,843
Accrued Salaries	24,543	15,343
Accrued Dependent Premiums	<u>16,804</u>	<u>15,149</u>
Total Liabilities	228,500	188,696
Reserves (Exhibit B)	<u>4,734,806</u>	<u>4,209,152</u>
Total Liabilities and Reserves	<u>\$4,963,306</u>	<u>\$4,397,848</u>

Note 1: Investments are recorded at cost. Market value at 31 December 1980 was \$4,250,700 and at 31 December 1979 was \$3,681,200.

Note 2: In April 1981 \$1,843,300 of investments were sold at a loss of \$407,000.

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Exhibit B

Government Employees Health Association, Inc
Statement of Changes in Reserve Fund Balances
For the Year Ended 31 December 1980

	<u>Total</u>	UBLIC Investment in Common Stock	UBLIC General	Association Benefit Plan	Air Flight Plan	Contract Hospital- ization	General Fund
Balance, 1 January 1980	<u>\$4,209,152</u>	<u>\$345,412</u>	<u>\$3,382,519</u>	<u>\$317,551</u>	<u>\$29,743</u>	<u>\$69,227</u>	<u>\$64,700</u>
Increases:							
Premiums Withheld from or Returned by Underwriter	851,785		449,902	392,795	764	8,324	
Investment Income	348,000	74,585	260,783		2,297	5,359	4,976
Miscellaneous	<u>1,305</u>						<u>1,305</u>
Total Increases	<u>1,201,090</u>	<u>74,585</u>	<u>710,685</u>	<u>392,795</u>	<u>3,061</u>	<u>13,683</u>	<u>6,281</u>
Decreases:							
Salaries	398,150		18,143	378,107	380	1,520	
Premiums for UBLIC Dependent Coverage	37,705		37,705				
Loss on Sale of Investments	189,134	28,820	152,907		1,347	3,142	2,918
Investment Fees and Expenses	42,903	12,919	28,597		252	588	547
Miscellaneous	<u>7,544</u>		<u>292</u>				<u>7,252</u>
Total Decreases	<u>675,436</u>	<u>41,739</u>	<u>237,644</u>	<u>378,107</u>	<u>1,979</u>	<u>5,250</u>	<u>10,717</u>
Balance, 31 December 1980	<u>\$4,734,806</u>	<u>\$378,258</u>	<u>\$3,855,560</u>	<u>\$332,239</u>	<u>\$30,825</u>	<u>\$77,660</u>	<u>\$60,264</u>

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Exhibit C

Government Employees Health Association, Inc.
Statement of Changes in Financial Position
For the Year Ended 31 December 1980

Resources Provided by:

Sale of Investments	\$7,833,556
Claims Reimbursed by Underwriters:	
Hospitalization	8,801,721
Death	355,812
Premiums from Policyholders	1,229,977
Premiums from Underwriters	851,785
Interest Income	273,415
Dividend Income	74,585
Other Income	<u>1,305</u>
	<u>\$19,422,156</u>

Resources Applied to:

Purchase of Investments	\$8,585,427
Claims Paid to Policyholders:	
Hospitalization	8,740,126
Death	357,666
Premiums Paid to Underwriters	1,182,168
Salary Paid	398,150
Investment Fees and Expenses	42,903
Decrease in Accounts Payable	43,879
Increase in Cash	61,981
Purchase of Equipment	2,890
Miscellaneous	<u>6,966</u>
	<u>\$19,422,156</u>

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ROUTING AND RECORD SHEET

Low

SUBJECT: (Optional)

FROM:

Chief, Insurance Branch
926 Ames

EXTENSION

NO.

DATE

17 August 1981

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

DC/BSD/Pers/SP

2.

C/BSD/Pers/SP

3.

DD/Pers/SP

4.

EA/Pers

5.

DD/Pers

6.

D/Pers

7.

8.

9.

C/IB

10.

11.

12.

13.

14.

15.

Attached is the final report of audit for GEHA's 1980 activities. I will prepare and forward a response to you for recommendation #4. Do you wish the GEHA Investment Committee to respond to Recommendations 1, 2, and 3? I have also attached 8 copies for the Board if you wish to send copies to them.

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Audit of Government Employees Health Association, Inc.

FROM:

Audit Staff
1201 Key

EXTENSION

2105

NO.

Pers 81-1024

DATE

10 Aug 81

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1.

IG
6E19 Hdqs

AUG 1981

100

WR

2.

3.

D/Pers.
5E13 Hdqs.

12 AUG 1981

M

Has Recommendations

4.

D/Pers.

12 AUG 1981

Q

5.

D/Pers./SP

8/13 EF

6.

7.

8.

9.

C/BSD

8/14

WB

9/ For action and response. If GEHA Board action on items 1, 2 & 3 canol be completed by 10 Sept, provide interim response indicating action on item 4 and plans for Board consideration.

10.

C/IB

11.

12.

13.

14.

15.

STAT

ROUTING AND TRANSMITTAL SLIP		Date
TO: (Name, office symbol, room number, building, Agency/Post)		Initials Date
1. DD/Pers/SP		Est 6/1
2. DD/Pers	1 JUN 1982	
3.		
4. AC/BSO		GA 6/2/82
5. C/BSO		CB 6/3
Action	File	Note and Return
Approval	For Clearance	Per Conversation
As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	
REMARKS: C/IB		
For your info before forwarding.		
[redacted] asked [redacted]		
[redacted] for this summary while doing the GEHA audit.		
#5 MEMO FORWARDED TO AUDIT STAFF ON 6/2/82		
DO NOT use this form as a RECORD of approvals, concurrences, disposals, clearances, and similar actions		
FROM: (Name, org. symbol, Agency/Post)		Room No.—Bldg.
[signature]		Phone No.
5041-102		OPTIONAL FORM 41 (Rev. 7-76)
★ GPO : 1981 O - 341-529 (120)		Prescribed by GSA FPMR (41 CFR) 101-11.206